RBC Dominion Securities Inc.

Wealth Management REVIEW

Wealth Management
Dominion Securities

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In brief

RBC poll shows Canadians not using TFSAs to their full benefit

It's been 10 years since Tax-Free Savings Accounts (TFSAs) first appeared and while they're proving to be Canada's savings superhero, their true superpower remains dormant. Canadians continue to largely use their TFSAs for savings storage rather than benefiting from tax-free returns, by investing those funds to help them grow, according to the 2019 RBC Financial Independence in Retirement Poll.

Income earned on what you hold within your TFSA is not taxed, so tax-free compounding occurs for the full amount. You can invest in a variety of investments to help you maximize your tax-free return, to help you reach your financial goals.

For more information, please contact your Investment Advisor.

Margin for error

By Jim Allworth

For much of the summer, investor attitudes were shaped by elevated concerns about the U.S.-China trade scrap, Brexit, sagging manufacturing activity indexes everywhere, and the persistent rumbling of commentators (who, after all, have to comment) that a U.S. recession was just around the corner.

This barrage sent U.S. investor sentiment readings to deeply pessimistic levels last seen at the bottom of last year's August-to-December stock market rout (and not far above the panic levels at the depths of the European sovereign debt crisis in 2012 and the global financial crisis in 2009.)

This intense pessimism was stoked by some weak readings from a narrow cross-section of the economies in question. For example, manufacturing accounts for just 10% of U.S. GDP. The purchasing managers' index (PMI) readings for the non-manufacturing 90% of the economy have remained firmly in positive territory. A similar divergence between weak manufacturing and still-strong services PMIs is apparent in China, Japan and the Euro area.

The beat goes on

This more upbeat picture seems much more in sync with the very tight labour market data. The U.S. unemployment rate at 3.7% is at a low level last seen 50 years ago. For Canada, at 5.7%, it was 45 years ago in 1974. Unemployment insurance claims in the U.S. – a good measure of the layoff rate – have trended relentlessly lower for 10 years and continue to do so. No company is voluntarily laying anyone off because replacing even an unsatisfactory employee is extremely difficult. The same dynamic is at play through much of Canada.

This tight labour market has produced a confident consumer with money to spend. Retail sales have been solidly higher in the U.S. New housing construction permits have surged recently, while

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home sales have climbed higher. New mortgage applications for purchase are also higher than a year ago.

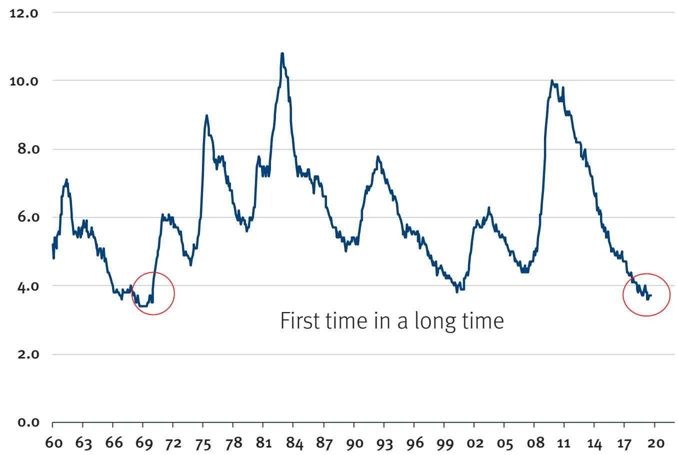
In Canada, consumers are still shopping. And while the most overheated real estate markets have cooled off and retrenched in response to tighter macro-prudential rules from government, now buyers appear to have regained their composure and re-entered the market.

As good as it gets

Most importantly, in both U.S. and Canadian economies and throughout the developed world, credit conditions remain accommodative. The latest Senior Loan Officer Survey from the U.S. Federal Reserve reveals that a majority of banks continues to lower lending standards on almost all categories of loan, both commercial/industrial and consumer. Businesses report no trouble getting credit. The most recent member survey of the National Federation of Independent Business in the U.S. had just 3% of small and medium-sized businesses indicating they were unable to get all the credit they needed. And only 2% reported their most recent loan was harder to get than the one before.

Historically low interest rates, banks that are prepared to lend, confident consumers able to sustain spending, and corporations that are delivering high profitability and record levels of free cash flow: this is very close to as good as it gets. And therein lies the problem. It is usually the case that the economy looks unstoppable before it peaks. The turn most often comes when inflation – often a product of an "unstoppable" economy experiencing labour shortages – moves up to levels demanding more aggressive tightening by the central bank.

U.S. unemployment rate (%)



Inflation has been anything but a problem in recent years and it is the prevailing opinion of almost everyone that it is going to remain quiet and acceptably low for some considerable time. We are bothered somewhat by that unanimity. Some recent readings in both the U.S. and Canada have been higher than expected. More upside inflation surprises can't be ruled out.

That said, the accumulating of inflationary pressures great enough to compel central banks to act and then the subsequent building of monetary tightness sufficient to produce an economic downturn will take time. For our part we expect the North American economies and corporate profits will continue to grow over the coming 12 months, perhaps beyond. Share prices should also advance from here in response to that growth.

It's always the right time to prepare

Whether it's a year from now, or two or three, an economic downturn will eventually arrive, ushering in a much more challenging period for equities. Bear markets usually begin some months or quarters before their associated economic recession. We think that now, while stock markets and the economy look set to move higher, is a good time to think about how to prepare portfolios for that day when an unwelcome sea change is upon us. Revisiting issues like risk appetite, portfolio balance and sector exposure is always appropriate.

An important part of portfolio construction is the building in of a margin for error were one proven wrong about the future direction of the course of the economy, share prices and interest rates. Re-assessing whether that margin is sufficient would be a useful first step.

For a more detailed update on our outlook for fixed income and equity markets, ask for the latest edition of RBC Wealth Management's *Global Insight* publication.

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

The Un-Bucket List

We all have ideas for the fun or exciting activities that we'd like to do during our lifetimes: what is often referred to as our "bucket list." Some of us might want to skydive out of an airplane, while others might find a relaxing cruise to the Galapagos Islands more their speed.

Whatever items you want to check off your bucket list, there's another list with items that, while not as fun or exciting, you should definitely check off, so you can get back to your bucket list. Let's call it your "un-bucket list" – and here are some items to consider including:

1. Update your financial plan

Not everything on your bucket list will necessarily require significant financial resources. Who knows, maybe growing the perfect tomato in your garden or teaching your dog to catch a frisbee is at the top of your list. But especially as you enter your retirement years, it's important to ensure that you will have enough to do all the things you want to do, especially considering today's longer life expectancies, higher taxes and rising costs – among other things.

With a financial plan, you can determine how much you can spend on your bucket list items, while ensuring you will still have enough for essentials like food and shelter (and for as long you're going to need those things). What's more, a financial plan may uncover opportunities to maximize your wealth, minimize taxes and protect your legacy for your family. We can help – and it doesn't have to be a huge effort. Talk to your advisor about getting a financial plan that's right for your situation.

2. Simplify your finances

Who wants to worry about financial matters while they're more concerned about finally completing that half-marathon or mastering the intricacies of woodworking? One way you can simplify your finances, and gain more time to live your life, is by consolidating your various financial accounts. It's simple: the fewer your accounts, the easier it is to keep track of everything.

3. Take advantage of online services

Wondering what's going on with your finances while you're busy renovating your lakeside cottage or aspiring to be a novelist? With RBC's online services, you can keep track of your banking and investments on your schedule, while reducing the paperwork you receive in the mail. Talk to your advisor about setting up access to DS Online if you haven't already.

4. Set it to automatic

Bill payments, RRSP/TFSA contributions, RRIF withdrawals and more: it can all happen automatically once you set it up, leaving you more time to plan your next adventure.

5. Ensure you have the insurance you need

So you want to learn how to skydive? Or, maybe backcountry heli-skiing is more your thing? Whether or not "extreme sports" are on your bucket list, you will want to ensure you have adequate life insurance. If travel is on your bucket list, you will also want to consider out-of-country health insurance.

And insurance can help in other ways, too. For example, "living benefits" insurance can help you in event of an injury, disability or illness. If you ever need to make a claim, and you receive a payment, you can use it however you see fit: private treatment, home renovations, or checking off

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items on your bucket list (all without tapping into money earmarked for your retirement or estate). Talk to your advisor about your insurance needs, and the sooner the better, as insurance tends to be a more cost-efficient option when you're younger and in better health.

6. Keep your Will up-to-date

Generally, you should update your Will every three to five years, or whenever there's a significant change in your life. Once it's done, you can carry on checking off items on your bucket list!

7. Consider who you name as your executor and Power of Attorney

Your executor probably has their own bucket list, and being your executor may not be on it. While it is often considered an honour, being named an executor can also be a burden, with a lengthy task list that includes everything from making final arrangements to filing final taxes.

Similarly, put some thought into who you name as your Power of Attorney – the person responsible for making important decisions on your behalf if you're unable. This person may be responsible for making decisions about your financial or health matters – or both.

Consider naming someone who truly has the time, expertise and ability to carry out their duties (even if it's not an "obvious" choice such as your spouse or one of your children). Another option is to name a trust company as your executor or Power of Attorney – ask your advisor for more information about these options.

Interest rates applied to account balances as of September 22, 2019*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.95%	7.25%
Debit balances $10,000 – $24,999	5.70%	7.00%
Debit balances $25,000 – $49,999	5.45%	6.75%
Debit balances $50,000 – $99,999	5.20%	6.50%
Debit balances $100,000 and over	4.95%	6.25%
All debit balances for registered accounts	5.95%	7.25%
All credit balances for registered accounts	0.05%	0.05%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with the Royal Bank prime rate as follows:

Debit balances	Canadian dollar rates†	U.S. dollar rates†
Under $10,000	CAD Prime + 2.00%	USD Prime + 2.25%
$10,000 – $24,999	CAD Prime + 1.75%	USD Prime + 2.00%
$25,000 – $49,999	CAD Prime + 1.50%	USD Prime + 1.75%
$50,000 – $99,999	CAD Prime + 1.25%	USD Prime + 1.50%
$100,000 and over	CAD Prime + 1.00%	USD Prime + 1.25%

† Based on Royal Bank prime rates as of September 22, 2019. CAD Prime = 3.95% and USD Prime = 5.00%. Rates are subject to change*.

* RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates and/or cash rates. Interest amounts less than $5 are neither charged nor paid on regular accounts, and interest amounts less than $1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate. For interest rates on balances other than CAD or USD, speak to your advisor, or go to www.rbcds.com/cash-margin-rates.html.

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